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C O N F I D E N T I A L SANAA 001813

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TAGS: [ECON](#) [EFIN](#) [ECPS](#) [PGOV](#) [KMPI](#) [YM](#)  
SUBJECT: TRAIL OF DEBT LEADS TO PRESIDENT'S OFFICE AND  
FAMILY

REF: A. SANAA 323  
[1](#)B. SANAA 1771

Classified By: DCM Nabeel Khoury for reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY. In early June, the Central Bank of Yemen (CBY) leaked a list of prominent figures with unpaid loans to Watani Bank, and recommended legal action be taken against them. The debt contributed to Watani's collapse, and the CBY is seeking repayment in order to honor commitments to depositors. The list of debtors includes President Saleh's brother and other members of the family, the Director of the Presidential Office, the Minister of Trade, and other well-known military, tribal, and business figures. The CBY report clearly illustrates the problem of insider lending in Yemen, and the vulnerability of the financial sector. It also may indicate an increased willingness within the ROYG to tolerate open discussion of corruption, though it remains to be seen whether the CBY's moves will result in concrete consequences. END SUMMARY.

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Deadbeat Borrowers Include Yemen's Elite  
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[1](#)2. (C) In early June, the CBY recommended to the Attorney General's (AG) office that it take legal action against those holding unpaid loans to failed Watani Bank. The news was reported in Al-Shoura, mouthpiece of the opposition Union of Popular Forces Party, and confirmed separately to Econoff by CBY Legal Advisor Mustafa Qaid. Al-Shoura published a list of high-profile debtors, which includes a number of well-known political, military, and tribal leaders close to the President.

[1](#)3. (SBU) Topping the list of debtors is the President's brother, Ali Saleh al-Ahmar, as well as a number of other members of Saleh's family. Other prominent names include Ali Mohamed al-Anisi, Director of the President's Office and Head of the National Anti-Corruption Committee; al-Shumu' Newspaper, which has links to Northwest Military Commander and relative of the President Ali Mohsen al-Ahmar; Minister of Trade, Dr. Khaled Rajeh Sheikh; and Sheikh Mohamed Naji al-Rowaishan, Chairman of Yemen Commercial Bank, a Watani competitor. Also targeted for legal action were Watani shareholders and board members, confirming suspicions of widespread insider lending.

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Tough Talk May Be Just That  
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[1](#)4. (C) According to Qaid, the AG issued a court order freezing the debtors' bank accounts and prohibiting them from traveling outside the country. Qaid disputed only one name,

saying that al-Anisi was not actually on the list. It remains unclear what repercussions may result from the AG's action. Qaid confessed that it would be difficult to press charges against such powerful figures, and pleaded that with over 10,000 outstanding loans in Watani's portfolio, it would be hard to pursue each and every case.

15. (SBU) The CBY's current actions confirm statements made by Dr. Ahmad Hamdani and his family that much of Watani's liquidity problem was caused by the refusal of well-connected borrowers to repay their loans. (Ref A) Dr. Hamdani himself remains in prison, where he is still facing charges of high financial crimes against the state, and appears unable to negotiate a bail agreement with the AG. On June 7, a Sanaa commercial court ruled against Watani's counter-suit, clearing the way for the CBY to commence liquidation of the bank. The following week, depositors lined up outside Watani Bank after the CBY promised to honor accounts of under USD 1000.

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ROYG Shows Tolerance for Whistle-Blowers  
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16. (C) COMMENT: The CBY's Department of Banking Supervision is widely recognized as an enclave of honesty within the ROYG. Even so, the CBY's willingness to publicly accuse powerful figures of corruption comes as a surprise, and may indicate an official shift in favor of improved governance and reform. The IMF's 2005 Article IV report recently praised the CBY for its handling of the Watani closure, and in honoring the accounts of small depositors the CBY closely followed a manual for bank closures provided by the Department of Treasury Office in Abu Dhabi. In the case of Watani, the specter of a broad financial collapse may have

proved incentive enough for the ROYG to act responsibly, in order to avoid spreading panic and currency flight. Despite the CBY's tough stance, however, it is unlikely that the AG will press charges against those close to the President or even successfully collect on their loans. The Watani case offers positive signs in the fight against corruption, but Yemen can be expected to follow its unique brand of laissez faire economics for some time to come. END COMMENT.  
Krajeski